

under his or her control and how they are performing.

(6) Your aggregate delegation of discretionary control over the purchase and sale of investments under this paragraph (c) is limited to 100 percent of net capital at the time of delegation.

(d) Except for investments that are issued or fully guaranteed as to principal and interest by the U.S. government or its agencies, enterprises, or corporations or fully insured (including accumulated interest) by the National Credit Union Administration or the Federal Deposit Insurance Corporation, you must conduct and document a credit analysis of the issuing entity and/or investment before you purchase the investment. You must update the analysis at least annually as long as you hold the investment.

(e) You must notify your board of directors as soon as possible, but no later than the next regularly scheduled board meeting, of any investment that either is outside board policy after purchase or has failed a requirement of this part. You must document the board's action regarding the investment in the minutes of the board meeting, including a detailed explanation of any decision not to sell an investment that has failed a requirement of this part. Within 5 days after the board meeting, you must notify the appropriate regional director in writing of an investment that has failed a requirement of this part.

(f) You must maintain documentation regarding an investment transaction as long as you hold the investment and until the documentation has been both audited and examined. The documentation should include, where applicable, bids and prices at purchase and sale and for periodic updates, relevant disclosure documents or a description of the security from an industry-recognized information provider, financial data, and tests and reports required by your investment policy and this part.

§ 703.50 What rules govern my dealings with entities I use to purchase and sell investments ("broker-dealers")?

(a) Except as provided in paragraph (c) of this section, you (a federal credit

union) may use a third-party entity to purchase and sell investments (a "broker-dealer") as long as the broker-dealer either is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) or is a depository institution whose broker-dealer activities are regulated by a federal regulatory agency.

(b) In determining whether to buy or sell investments through a broker-dealer, you must analyze and annually update the following factors:

(1) The background of any sales representative with whom you are doing business.

(2) Information available from State or Federal securities regulators and securities industry self-regulatory organizations, such as the National Association of Securities Dealers and the North American Securities Administrators Association, about any enforcement actions against the broker-dealer, its affiliates, or associated personnel.

(3) If the broker-dealer is acting as your counterparty, the ability of the broker-dealer and its subsidiaries or affiliates to fulfill commitments, as evidenced by capital strength, liquidity, and operating results. You should consider current financial data, annual reports, reports of nationally recognized statistical rating agencies, relevant disclosure documents, and other sources of financial information.

(c) The requirements of paragraph (a) of this section do not apply when you purchase a certificate of deposit or share certificate directly from a bank, credit union, or other depository institution.

[62 FR 33001, June 18, 1997, as amended at 62 FR 64147, Dec. 4, 1997; 63 FR 24105, May 1, 1998]

§ 703.60 What rules govern my safekeeping of investments?

(a) Your (a federal credit union's) purchased investments and repurchase collateral must be in your possession, recorded as owned by you through the Federal Reserve Book-Entry System, or held by a board-approved safekeeper under a written custodial agreement. A custodial agreement is a contract in which a third party agrees to exercise